

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

**FROM: KRISTINE SASSER
DEPUTY ATTORNEY GENERAL**

DATE: JUNE 22, 2011

**SUBJECT: CASE NO. GNR-E-11-02 (Idaho Power, Avista, PacifiCorp)
ADJUSTABLE PORTION OF AVOIDED COST RATE
REVISED/UPDATED CALCULATION FOR EXISTING CONTRACTS.**

**CASE NO. PAC-E-11-14 (PacifiCorp)
ANNUAL VARIABLE ENERGY RATE ADJUSTMENT –
1992 AMENDMENT QF CONTRACTS.**

The Idaho Public Utilities Commission in Order No. 28708, Case No. GNR-E-99-1, established a methodology for the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip, a coal-fired generating facility in southeast Montana. For those QF contracts with Colstrip-related fuel costs and variable O&M, future Colstrip variable cost adjustments are to be calculated by using FERC Form 1 Colstrip Unit Coal Costs per megawatt hour (MWh) and adding \$2.00/MWh (the average variable O&M cost of Colstrip plus 20¢/MWh for generation taxes plus a five percent (5%) adjustment for line loss). As computed by Commission Staff, the Colstrip related adjustable rate should change from 12.78 mill/kWh to 11.38 mill/kWh. The same calculated rate revision under the avoided cost methodology is used by Avista, PacifiCorp dba Rocky Mountain Power and Idaho Power Company. This change in the variable rate affects existing contracts under the previous SAR methodology.

The adjustable portion of the avoided cost rates under Sumas-based methodology is based on annual average gas prices indexed at Sumas, Washington. As reported by Avista, the indexed gas prices have increased by \$0.37/MMBtu. The approved gas price of \$4.62/MMBtu

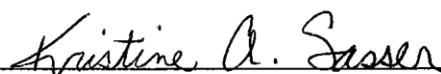
plus the \$0.37/MMBtu increase results in a gas price of \$4.99/MMBtu for the 2011-2012 year. This equates to a SAR fuel cost of 35.43 mill/kWh using a heat rate of 7,100 Btu/kWh as used in the model for potential future contracts in accordance with Order No. 29124. For existing contracts signed under an assumed heat rate of 7,350 btu/kWh, this equates to a SAR fuel cost of 36.68 mill/kWh.

The Commission Staff by letter (attached) dated June 3, 2011, prepared by Staff Engineer Rick Sterling, calculated changes to the annual adjustable rate portion of avoided costs for those QF contracts using variable costs associated with Colstrip and Sumas for review by the respective utilities. Avista, Idaho Power and PacifiCorp by letter responses (attached) indicated that Staff's calculations are correct.

In accordance with Order No. 29316, the adjustable portion of the avoided cost rate for existing PacifiCorp contracts with year 1992 amendments has also been recomputed: Beginning on July 1, 2003, the adjustable portion for these contracts was ordered to be equal to the average cost of fuel for the Carbon, Hale, Naughton, Huntington and Hunter generating plants, including a variable O&M component of \$1.51 but exclusive of generation taxes and a line loss adjustment. The variable energy rate applicable to deliveries commencing July 1, 2011 extending through June 30, 2012 has been computed by PacifiCorp to be \$16.42/MWh, an increase from \$14.53 last year.

COMMISSION DECISION

Under avoided cost methodology the adjustable portion of avoided cost rates for existing contracts is calculated annually for an effective date of July 1. Avista, Idaho Power and PacifiCorp agree with Staff's proposed calculations. Also adjusted annually is the adjustable portion of avoided cost rates for existing PacifiCorp contracts with year 1992 amendments. PacifiCorp for those contracts has computed the new variable energy rate. Does the Commission agree with the proposed changes in the variable rates?



Kristine A. Sasser
Deputy Attorney General

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